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AB InBev Equity Research Report - Impact of a challenging environment on the valuation of the beer market leader

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Abstract

This report is part of an Equity Research Report for AB InBev. First, a BUY recommendation for investors is given. The optimistic view on AB InBev is mainly based on its deleveraging strategy in order to return to a sustainable capital structure of Net Debt/Equity of 118.00% (pre-SABMiller acquisition level). Further, the shareholders' return is driven by addressing the main beer market trends (premiumization, preference shifting, legalization of cannabis) through the expansion into growing segments. The market leader is expected to benefit from the global trends by focusing on premium brands and expanding into new categories such as craft beer. AB InBev's business in its different regions is analyzed and forecasted based on the drivers for the specific markets.

Keywords: AB InBev, Beer Market, Performance, Valuation

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This report is part of the Equity Research report (annexed) and should be read has an integral part of it.

Table of Contents

Executive Summary

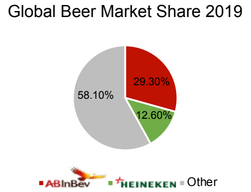
With a **target price of €67.26** and a total **shareholders' return of 18.66%**, we recommend to **BUY**.[1] Since the dividends are temporarily cut, the shareholders' return is mainly driven by an **increasing value** due to an improved capital structure. By **deleveraging**, AB InBev will return to a stable capital structure and achieve a sustainable level similar to its pre-SABMiller acquisition levels in 2016.

Besides the capital structure, the shareholders' return is driven by the expansion in **growing segments** such as **craft beer**, especially in North America, Europe and Asia Pacific. In addition, AB InBev will benefit from shifted consumer preferences towards **low- and non-alcoholic** beer. These new segments are attractive for breweries as they provide **higher margins** than traditional beer. On top, the company's strategy regarding **premium products** as a response to the **premiumization trend and global increasing wealth** will generate additional value.

In order to calculate AB InBev`s future share price, intrinsic valuation (based on the Discounted Cash Flow analysis) and relative valuation (based on AB InBev's and competitors' multiples) have been applied, indicating a target price range between [€35.52; €81.15]. The target price calculated through intrinsic valuation is based on a **cost of equity of 9.18%** (2021), a **cost of debt of 2.76%** (2021), a **terminal WACC of 4.73%** and a **terminal growth of 2.30%**. Further, the valuation is based on the expectation that AB InBev will return to the **target capital structure (Net Debt/Equity) of 118.00%.**[2]

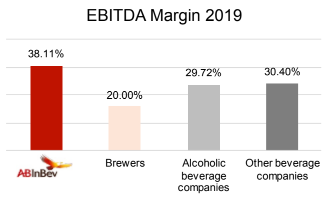
We believe AB InBev provides a **good buying opportunity**. Since AB InBev acquired SABMiller in 2016, the brewery`s share price steadily declined until the end of 2018 (CAGR 2016-2018 of -24.25%). We expect that AB InBev is able to turn this trend which is already shown in 2019 (CAGR 2018-2019 of 26.01%).[3] While **FX headwinds**, increasing **competition** and the **high level of debt** provide challenges for the company`s future, we expect that AB InBev will successfully deleverage until 2030 and will benefit from the recent market trends and growing GDP worldwide.

Company Overview

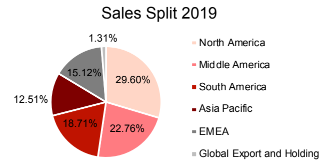


AB InBev is the largest global brewer since InBev (itself a merger between Interbrew from Belgium and AmBev from Brazil) acquired Anheuser-Bush in 2008.[4] AB InBev successfully merged with SABMiller in 2016 leading to a worldwide beer market share of 29.30% in 2019, more than double of its main competitor, Heineken, holding a market share of 12.60%.[5] AB InBev is based in Belgium (Leuven) and publicly traded on Euronext Brussels. Furthermore, the company is secondary listed on Mexico City Stock Exchange, Johannesburg Stock Exchange and with American Depositary Receipts on the New York Stock Exchange. The major controlling stake is held by three Belgian families and three billionaire Brazilian investors.[6]

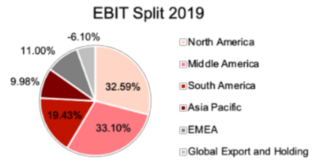
[1] Valuation Model
[2] Valuation Model
[3] Capital IQ
[4] Annual Report AB InBev, 2019
[5] Barth-Haas Group, 2020
[6] Annual Report AB InBev, 2019



AB InBev's business model was built on multiple acquisitions (see Appendix A). In all its acquired companies, it managed to realize operational synergies leading to an important decrease of its cost structure. The strict application of zero-based budgeting and closely monitoring and measuring costs allowed the company to reach a 38.11% 2019 EBITDA compared to a peer (for the overview of selected peers see Appendix B) median of 21.91%.[7]



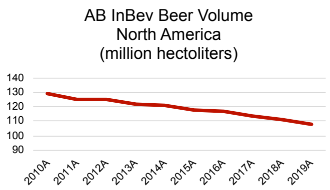
AB InBev is geographically well-diversified with a balanced exposure to developed and emerging markets and operates 329 breweries, malting and other plants in more than 50 countries worldwide (for global footprint see Appendix D). The company employs 170,000 people globally and is organized in five distinct management zones split geographically.[8]



AB InBev has been effective in applying different strategies depending on the market situation, the purchasing power in different markets and the changes in taste profile. It has a product portfolio of more than 500 brands, including the global brands (Budweiser, Stella Artois and Corona) which are at a higher price level and are supported by worldwide marketing campaigns. In addition, it has multi-country premium brands (Beck's, Castle, Castle Light, Hoegaarden and Leffe) and local champion brands. These local brands can be offered at very competitive prices.[9]

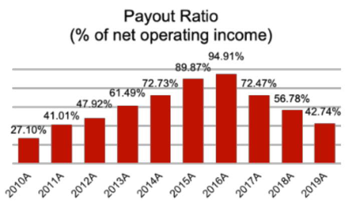
Investment Thesis

We believe that AB InBev provides a good **buying opportunity**. While in the last years, investors have been concerned about AB InBev`s performance, we expect this pessimistic view on the company will be turned.



The main concerns investors have, are **the high level of debt** (due to the acquisition of SABMiller in 2016) and the **poor performance** in the brewer`s main market **North America** where AB InBev lost volume by -1.95% in the last decade.[10] As a result, the share price declined between 2016 and 2019 (CAGR -10.24%).[11]

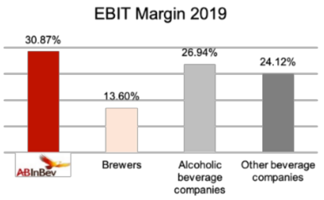
However, AB InBev is well positioned in the market as the **market leader** with a geographically well-diversified footprint and is benefitting from the worldwide **increasing wealth** by focusing on **premiumization** - especially since the company`s most promising regions are the emerging markets where the GDP is about to grow further with an average between 2021-2030 of 4.69%.[12] In addition, the expansion into **new segments** such as craft beer and low-and non-alcoholic beer provides potential for **volume growth** as well as for **margin improvement**.



Since dividends are part of the shareholders' return, investors are considering them in their investment decisions. The fact that AB InBev has **cut its dividends** - to 40.00% dividend per share ratio - temporarily from 2019 onwards may have an adverse impact on AB InBev`s attractivity. Even when cutting dividends means less shareholders' return from this perspective it will provide more value for investors due to the more **sustainable capital structure**. After 2016 the management took a similar measure by cutting dividends from 94.91% to 72.47% in 2017.[13]

The motivation of managers has huge impact on a company`s performance since they have the

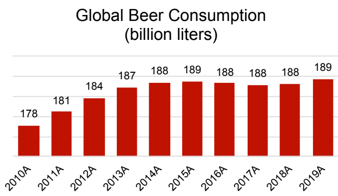
[7] Capital IQ
[8] Annual Report AB InBev, 2019
[9] Annual Report AB InBev, 2019
[10] Valuation Model
[11] Capital IQ
[12] International Monetary Fund, 2019
[13] Valuation Model

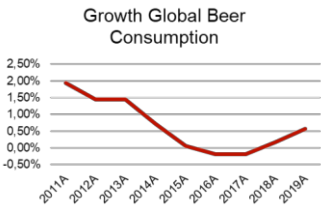


power to make important decisions about the strategy (reflecting the company`s performance). By incentivising the managers to become shareholders through a **transparent bonus scheme,** they led the company towards a high profitability with an **EBIT margin of 30.87%** in 2019, clearly outperforming its **competitors** with a median **EBIT margin of 15.64%.**[14] Moreover, we assume that the management is highly motivated to spur continued growth.

We believe that the main risk of the company is the **high exposure to FX** since the majority of its debt is denominated in US Dollar (58.06%) while most of the earnings are generated in emerging market currencies (about 60.00%).[15,16] Each adverse development in emerging market currencies may have a significant impact on AB InBev`s ability for cash generation and, thus, the ability to follow its main strategy – **deleveraging**.

Industry Overview & Segmentation

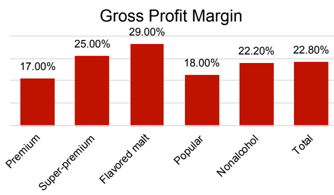




In 2020, the World Economic Outlook expects that the real **GDP will dip by -4.40%** worldwide with a quick recovery of **+5.20% in 2021**.[17] While in general global growth rates are a relevant indicator for sector-specific growth, **the beer industry is rather inelastic** and therefore less affected by economic trends. The total **beer consumption worldwide** was growing by an average of **0.70%** in the last decade ranging between [-0.20%; 1.93%]. Even though we argue that the economic situation doesn't affect the beer consumption significantly, the measures taken globally in order to **contain COVID-19 in 2020** have had a great **adverse impact** with a global decrease in consumption of **-11.03%.** Here we must highlight that the consumption **at home was less affected** with only -2.83% compared to the consumption out of home which decreased by -26.20%. Since bars and restaurants were closed in many countries, this result comes as no surprise. But the decrease of the beer consumption at home can be explained by the pandemic as well since, for example, in **Africa** people were not allowed to drink due to an **alcohol ban**. The global beer market is projected to **recover quickly in 2021 with a growth of 8.48%** and is forecasted to develop stable afterwards.[18] In line with these expectations, beer companies **share prices** are anticipating to **recover rapidly**. In Appendix C, an overview of AB InBev's share price evolution can be consulted to confirm the impact on the share price after macroeconomic crises and special events.

Overall, the global beer market is in a **mature state** with industry growth rates projected at a CAGR of **0.78% from 2019 to 2030** and is currently driven by three main trends: **market premiumization, preference shifting and legalization of cannabis**.[19]

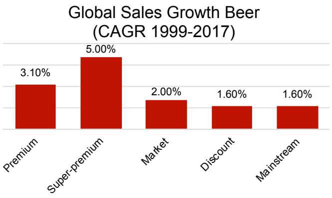
1. Market Premiumization



The beer industry is characterized by a **global premiumization** over the last decade. There is a clear trend observable of people willing to spend more money for higher quality. This is also in line with the **growing GDP** rate. Between 2010 and 2019 the worldwide GDP was growing by an average of 3.70%, which might indicate consumers are also able to pay higher prices.[20]

Global breweries can benefit from this trend since they are able to generate **higher margins**. The average gross profit margin for super-premium beer is 25.00% and is outperforming the average gross profit margin of the overall beer market which provides a margin of 22.80%. For

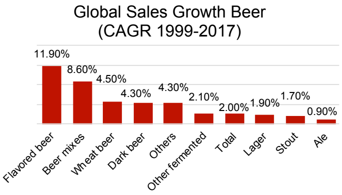
[14] Capital IQ
[15] Thomson Reuters
[16] RBC, 2020
[17] International Monetary Fund, 2019
[18] Statista, 2020
[19] Valuation Model
[20] International Monetary Fund, 2019



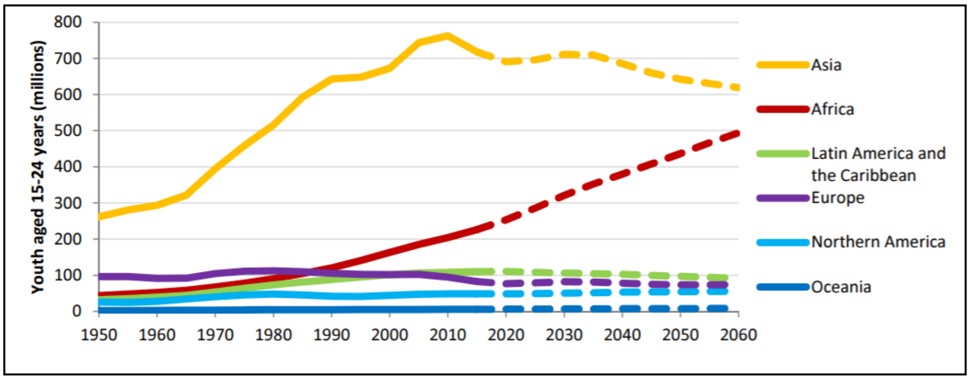
comparison, the popular-priced sector just reaches a gross profit margin of 18.00%.[21] As a survey by Global Data shows, there is a clear **global trend towards the super-premium beer products**. While the discount and mainstream segments were both growing at 1.60% since 1999, the premium and the super-premium categories were growing faster than the market with 3.10% and 5.00%, respectively.[22]

AB InBev`s commercial strategy is built around premiumization. In order to address the trend of premiumization AB InBev made huge investments in its portfolio of premium brands to **strengthen the organic growth**.

2. Preference Shifting



The consumer preferences are shifting away from the traditional beers towards **low- and non-alcoholic alternatives** which could be driven by **increasing health awareness**. As a survey by Global Data shows, 84.00% of alcoholic consumers worldwide are trying to consume less alcohol. Low alcoholic beer was growing with a CAGR of 3.50% and non-alcoholic with 4.00% (CAGR 1999-2018) which is higher compared to the overall beer market growth (average of 0.70% since 2010).[23,24] However, the beer industry can take **advantage** of this trend by introducing low- and non-alcoholic alternatives and offsetting the mature global beer market. Margin wise, it is attractive for breweries as well since the **gross profit margin for non-alcoholic beer** at 22.20% is **higher** than those of the most popular traditional beer products which on average have a margin of 18.00%.[25]
Beside the healthy alternatives, the preferences are also shifting towards **innovative drinks with new flavors and craft beer**. This trend is mainly driven by the growing young population - mainly in Asian and African countries - which is aiming for innovation.[26] In the last decade, flavored beer was the segment in the beer market with the **highest growth** (at 11.90%) and with the **greatest gross profit margin** (29.00%).[27,28]



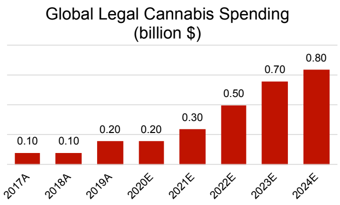
Source: United Nations, 2013

AB InBev is experienced in local presence and local bonding, where it can anticipate to the needs of the local markets. Furthermore, at AB InBev the decision was made to train local production managers with the latest and best production techniques. In this way they learned, among other things, to make global brands local (e.g. Stella Artois) and to achieve more effectiveness through this geographic product adjustment. This also enables the company to offer the customers more choice with the highest quality low- and non-alcoholic beer options such as Michelob Ultra, AB InBev`s fastest growing brand. With this brand, the **company is**

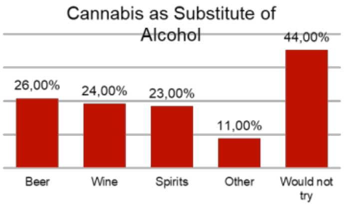
[21] CSP, 2018
[22] Global Data, 2018
[23] Beverage daily.com, 2018
[24] Valuation Model
[25] CSP, 2018
[26] United Nations, 2013
[27] Global Data, 2018
[28] CSP, 2018

addressing the increasing health awareness by focusing on low- and non-alcoholic beers.

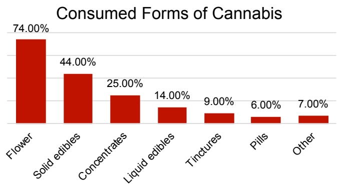
3. Legalization of Cannabis



Consumption of cannabis is already **legal in eleven states in the US** and became legal in **Canada** in 2018. The legalization of cannabis in all US states is expected to happen in 2022.[29] Consequently, this makes the **introduction of cannabis-based products** easier. The global market for legal cannabis is supposed to grow up to **$0.80 billion in 2024**.[30] Further, we assume that the market for THC and CBD based beverages in which AB InBev wants to expand is about to grow up to $5,294 million until 2030.[31]

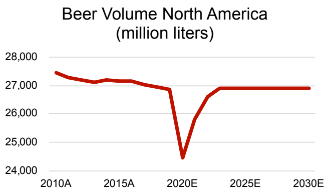


A survey by A.T. Kearney indicated that beer is the alcohol which most of the participants would substitute with cannabis (26.00%) and that overall, 56.00% would try to substitute alcoholic beverages by cannabis.[32] While the legalisation of cannabis has caused concern in the alcoholic beverage industry and especially in the beer market, it can also provide opportunities. 14.00% of the US consumers of cannabis expressed that they prefer consuming cannabis liquid which is an opportunity for cannabis-based drinks.[33]

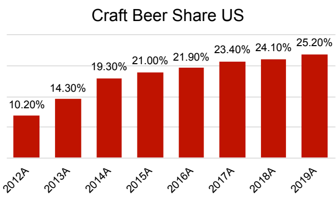


AB InBev is currently addressing this trend by researching non-alcoholic beverages containing THC and CBD and commercializing a non-alcoholic CBD based beverage in Canada.[34] The company can benefit from those **strategic investments in cannabis-based products**, expanding its activity and mitigating the effects from a potential interest decline in traditional beer.

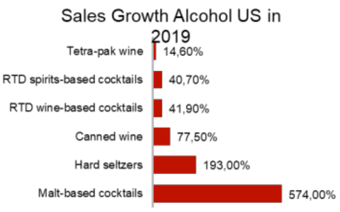
North America



In 2019, the beer market in North America reached a volume of 26,859 million liters and is expected to grow at a CAGR of 0.01% reaching 26,890 million liters by 2030. Due to the mature market, the volume in North America stagnated - with a slight decline of -0.24% - in the last decade. The US is the biggest beer market in North America with 89.91% of the total volume.[35] The past years the craft beer sector was increasing (25.20% of the US beer market) as well as the hard seltzer segment which grew by 193.00% in 2019 in the US.[36,37]



Since a significant growth in the North American beer market is based on the **strong craft beer segment** - which is expected to grow by 22.00% between 2020 and 2025 up to $122 million - investors may be concerned about AB InBev`s performance in this region.[38] The company clearly missed the momentum in North America with only small investments in the craft beer segment like purchasing craft beer distilleries such as Goose Island. Nevertheless, in September 2020 AB InBev officially announced the completion of the **acquisition of Craft Brew Alliance (US)** which is expected to lead to volume growth of 756,956 barrels.[39] Further, AB InBev is targeting organic growth in order to respond to the shifting trend towards the hard seltzer segment by launching Bud Light Seltzer. Even though the timing due to COVID-19 was bad, the brand is already one of the best-selling drinks in this segment.[40] Despite the strong start of Bud Light Seltzer, AB InBev is sequentially losing share in the seltzer segment due to



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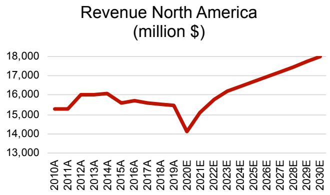
[29] Finanzen.net, 2020
[30] BDS Analytics, 2020
[31] Valuation Model
[32] A.T. Kearney, 2018
[33] New Frontier Data, 2017
[34] Annual Report AB InBev, 2019
[35] Valuation Model
[36] Brewers Association, 2020
[37] Nielsen, 2019
[38] Market Data Forecast, 2020
[39] FOODDIVE, 2020
[40] CNN business, 2020

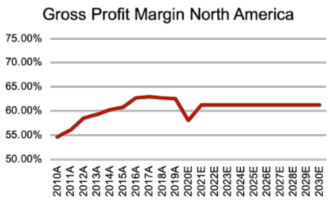
increasing competition.[41]

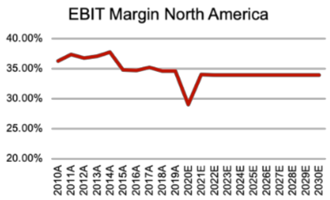
In addition, the **legalization of cannabis** in the North American region will provide volume growth potential for AB InBev. Since the global market for THC and CBD is supposed to grow up to $5,294 million until 2030, AB InBev has the opportunity to launch cannabis-based products.[42] However, since cannabis is illegal in most of the countries AB InBev is operating in, the growth potential is limited to North America.



In 2019, the company realized $15,488 million of its revenues (29.60% of total) in North America which implies a CAGR between 2010 and 2019 of 0.14%. Furthermore, its EBIT declined by -0.39% to $5,352 million (32.59% of total) with a margin of 34.56% in 2019. The volume proportion captured by AB InBev in 2019 is 40.21% which implies a CAGR of -1.72% between 2010 and 2019. Even when AB InBev lost market share in volume terms, this effect is offset by rising prices (CAGR 2010-2019 of 2.14%) which led to slightly increasing revenues (CAGR of 0.14%) between 2010 and 2019.[43]

Despite the declining revenues since 2016 we believe that AB InBev will be able to turn this trend due to **its investments in the craft beer segment** as well as the **hard seltzer segment**. We argue an increase in revenues of 2.45% until 2030. Further, we assume that the prices will grow slightly below the forecasted inflation rate. While in the past AB InBev was able to raise prices faster than the inflation by 2.14% on average, we assume that in a mature market such as North America it is not reasonable to expect price increases higher than the inflation rate.[44]



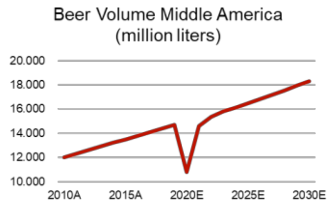


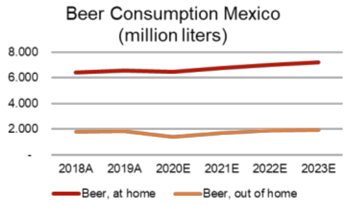
In the last decade, AB InBev was able to reduce the COGS relatively to the revenues from 45.41% in 2010 to 37.38% in 2019 due to a **positive brand mix and cost efficiencies**.[45] In addition, the matrix structure at AB InBev led to a worldwide standardization of systems, reports, processes and procedures, making work more efficient and achieving economies of scale. Routine assignments were also outsourced to low-wage countries, resulting in drastic cost savings.[46] This led to an increasing profit level from 54.59% to 62.62%.[47] However, since the COGS already declined in the past, we don't expect further improvements and argue for a stable gross profit margin. On top of that, we also don't expect improvements in SG&A expenses which increased in the past since AB InBev made some significant social commitments regarding the employees in the US based on its contract with Teamsters (brewers` largest US union) which it ratified in 2019 for the next five years.[48] As a result, we assume that the costs will be stable leading to a sustainable EBIT margin ranging between 33.93% in 2021 and 33.86% in 2030.[49]

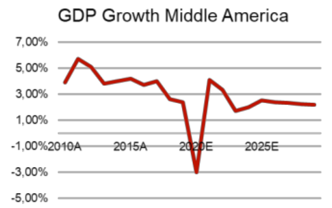
Middle America

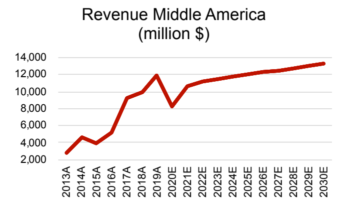
In 2019, the beer market in Middle America delivered a volume of 14,720 million liters and is expected to grow at a CAGR of 2.01% reaching 18,324 million liters by 2030.[50] We consider Mexico and Colombia as the markets with the greatest growth potential for AB InBev. Mexico is counted as the country with the highest annual per capita beer consumption in this region with 66.12 liters per capita in 2019 and is expected to further grow to 69.16 liters in 2023, mainly

[41] Credit Suisse, 2020
[42] Valuation Model
[43] Valuation Model
[44] Valuation Model
[45] Valuation Model
[46] Annual Report AB InBev,2019
[47] Valuation Model
[48] Teamsters, 2019
[49] Valuation Model
[50] Valuation Model





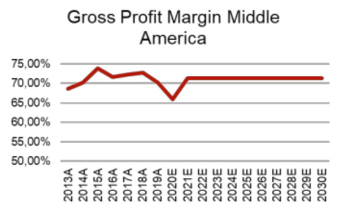


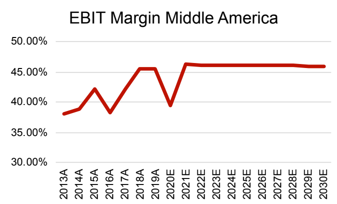


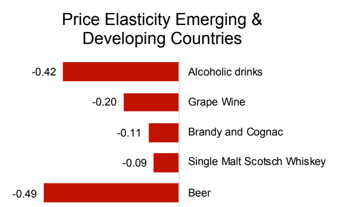
driven by growth in at home consumption.[51] The growth is primarily driven by **improvements in disposable income** and **living standards**. Between 2010 and 2019 the GDP was growing by 3.94% on average and is expected to further grow by an average of 2.49% after a dip of -3.00% in 2020 due to COVID-19.[52]

AB InBev reached revenues of $11,912 million (22.76% of total) in 2019 which implies a CAGR of 27.53% since 2013. It realized an EBIT of $5,435 million (33.10% of total), with a margin enhancement from 38.06% in 2013 to 45.63% in 2019.[53] This was mainly driven **by additional capacity** of 12 million hectoliters (potential of extension up to 24 million hectoliters) in Mexico through the opening of a brewery in Apan. Since AB InBev can **source about 60.00% of significant ingredients** for beer in this region this drove efficiencies across the entire supply chain.[54,55] We expect that those efficiencies will affect the forecasted years as well and will lead to a stable gross margin of 71.38% and an EBIT margin ranging between 46.25% in 2021 and 46.00% in 2030.[56]

In 2019, the volume proportion captured by AB InBev in Middle America is 91.03%.[57] In the same year, Middle America became AB InBev's largest and fastest growing region by EBIT, mainly due to a strong growth in Mexico and Colombia, with a volume growth of 35.14% between 2013 and 2019.[58] Despite the challenging competitive environment in Colombia, after Heineken's joint venture with Postobon in 2018, AB InBev reached in 2019 the highest annual volume growth since the SABMiller merger. The strong performance is primarily based on **the expansion of premium segments** and **increasing number of customers** due to smart affordability at the same time in order to address the high-income disparity (Gini coefficient of 45.40).[59,60]







Overall, we believe that AB InBev should **focus on volume growth** in Middle America. The consumers in emerging and developing countries such as Mexico and Columbia are **price sensitive** regarding beer (compared to other alcoholic drinks). While for the categories grape wine, brandy and cognac and single malt scotch whiskey the price elasticity ranges between [-0.20; -0.09], for beer it is significantly lower with -0.49. This means that a beer price increase by 1.00% would lead to a declining volume of -0.49% in the Middle American market and consumers are willing to switch to other alcoholic products.[61] Since there is a risk of losing customers by rising prices, we expect the company will further decrease its average price from 0.89 ($/liter) in 2019 to 0.80 ($/liter) until 2030 to cope with this trend.[62]

However, we believe that despite the strong competition AB InBev will be able to defend its volume captured since the company has **increasing selling locations** due to a distribution agreement concluded with OXXO (in 2019 4,400 extra OXXO retail locations and in 2020 already **1,600 additional OXXO stores** were added with as a goal to be present in 17,000+ stores in Mexico). With this extra channel, new customers and new beer drinking occasions can be reached which will result in volume growth.[63]

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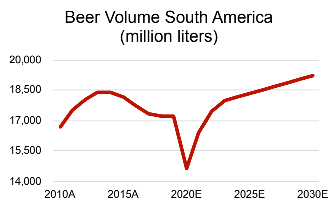
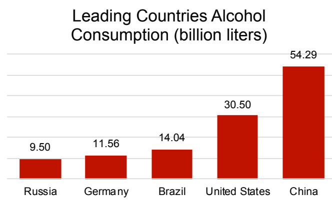
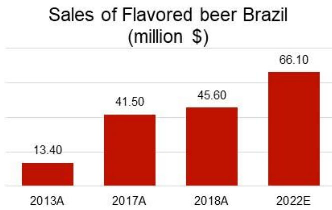
[51] Statista Consumer Market Outlook, 2019
[52] International Monetary Fund, 2019
[53] Valuation Model
[54] Annual Report AB InBev, 2019
[55] InsideBeer, 2019
[56] Valuation Model
[57] Valuation Model
[58] Valuation Model
[59] The World Bank, 2020
[60] Annual report AB InBev, diverse
[61] Euromonitor, 2014
[62] Valuation Model
[63] Annual Report AB InBev, 2019

South America

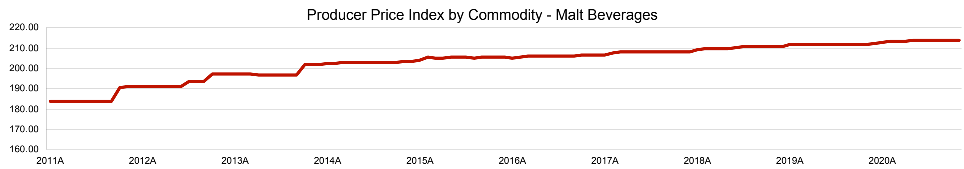




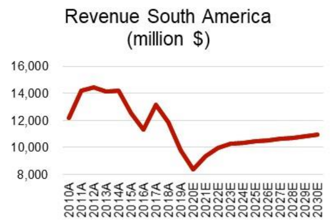


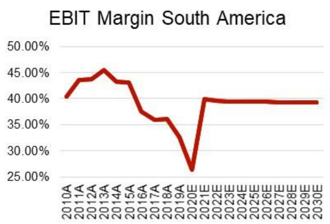
In 2019, the beer market in South America had a volume of 17,198 million liters and is expected to grow at a CAGR of 1.01% reaching 19,204 million liters by 2030.[64] Brazil is one of the largest beer markets worldwide. By comparing the countries in South America, the Brazilians are consuming most beer per capita (60.00 liters) and are worldwide number 3 in the alcoholic beverage consumption with 14 billion liters.[65,66] The Brazilian market provides a great **opportunity for flavored beer** as well. In 2013 the sales of flavored beer in Brazil was only $13 million but it is expected to reach $66 million in 2022.[67] While the alcohol consumption in Brazil is increasing - proportion of beer: 61.80% -, in Argentina only 39.90% of the consumed alcohol is beer.[68] But even when the total demand for beer in Argentina is relatively low, the consumers follow **the trend of premiumization** and **the attraction of new flavors** as well.[69]

In 2019, AB InBev realized $9,790 million of revenues in South America (CAGR 2010-2019 of -2.42%) representing 18.71% of the total revenues and an EBIT of $3,190 million representing 19.43% of total EBIT in 2019. The EBIT declined significantly since 2010 by -4.73%, with a margin contraction from 40.43% to 32.58%, mainly driven by higher COGS resulting from **higher commodity prices** regarding beer production (as shown in the graph below).[70]



Source: FRED Economic Data, 2020

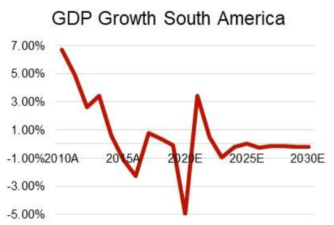




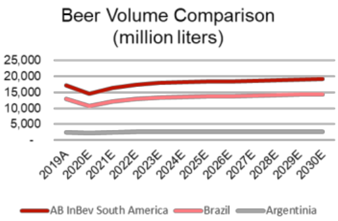
As a result of the declining revenues and higher COGS, the profitability level dropped from 65.15% in 2010 to 59.05% in 2019. We believe that AB InBev will be able to reduce the COGS to a lower level again due to **higher cost efficiencies** driven by its matrix structure. In addition, we assume that the commodity prices for raw materials needed for beer production will decrease or at least stay stable since they grew significantly in the last decade and we expect that they reached the peak already. Thus, we believe the company will reach a stable gross profit margin of 63.79% between 2021 and 2030. Further, the SG&A costs slightly increased in the last years mainly driven by one-off effects due to **new packaging innovations** which will have no significant further impact. Finally, we assume that the company will reach a stable EBIT margin ranging between 39.84% in 2019 and 39.21% in 2030.[71]

The volume proportion captured by AB InBev is 81.41% in 2019. Even when AB InBev is still market leader, it experienced a drop in volume in the last two years by -4.34%.[72] Nevertheless, we are optimistic about South America - particularly Brazil - since the alcohol consumption is quite high and the overall market is expected to grow, even when AB InBev`s historical proportion in the region suffered. Further, in the recent past, AB InBev has **improved its product portfolio** and **distribution network** in Brazil. The company wants to address the income disparity in Brazil, which has a Gini-Coefficient of 53.30, with its strategy regarding

[64] Valuation Model
[65] Wikipedia, 2020
[66] Euromonitor (Banco do Nordeste), 2018
[67] Euromonitor, 2019
[68] WHO, 2018
[69] Mordor Intelligence, 2020
[70] Valuation Model
[71] Valuation Model
[72] Valuation Model

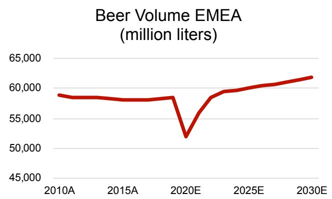


pricing.[73] While on the one hand the company was focusing on **smart affordability** and decreased the prices for many products - avoiding margin pressure by packaging innovations - for other brands like Budweiser and Corona the company increased prices based on **their premiumization strategy**. Overall, the prices decreased by -1.38% between 2010 and 2019 which is affected by both, the premiumization and the smart affordability strategy.[74] We expect that the prices will be stable in the upcoming years since in South America the GDP is expected to slightly decrease between 2020 and 2030 by a yearly average decline of -0.29% and thus AB InBev would focus on the smart affordability strategy rather than on premiumization.[75]

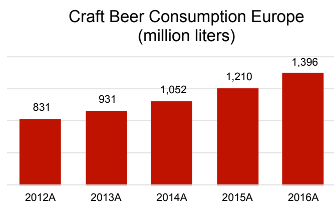


We assume that the revenue growth will be in line with the market growth projected until 2030, mainly driven by Brazil. While we expect Brazil to grow with 3.00% between 2020 and 2030, slightly faster than the projected market growth (CAGR 2021-2030 of 2.74%) this will be offset by Argentina with a growth of 1.43% where AB InBev is still facing consumption contraction resulting from ongoing challenging macroeconomic conditions.[76] If the economic or political situation continues to weaken, the South American business may be exposed to extra restrictions under new Argentinean FX, export repatriation or expropriation regimes. However, as already mentioned, the Argentinians prefer other drinks over beer which will also harm potential volume growth in that country.

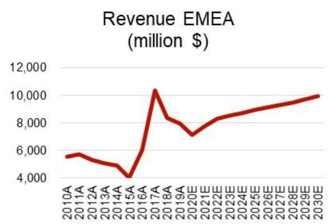
EMEA

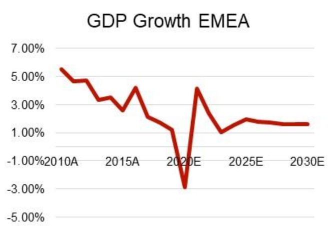


In 2019, the beer market in EMEA reached a volume of 58,503 million liters and is expected to grow at a CAGR of 0.50% reaching 61,772 million liters by 2030. Even when the market provides growth potential, the volume proportion captured by AB InBev is only 14.70% and is declining since 2017 mainly due to **the high competition** in Europe by the market leader in this region, Heineken.[77]



A significant growth of the European beer market is driven by the **craft beer segment** since the popularity is increasing and this market segement is expected to grow by 22.00% between 2020 and 2025 up to $122 million.[78] In Europe, the craft beer consumption grew significantly from 831 million liters in 2012 up to 1,396 million liters in 2016.[79] While AB InBev made no significant investments in European craft beer breweries in the past, its North American brewer **Goose Island** is about to **expand to Europe** and opened its first brew-pub in London. In addition, the completion of the acquisition of **Craft Brew Alliance** in North America provides potential for the European craft beer market for AB InBev as well since in 2012 the brewery already signed **an agreement with CraftCan Travel** in order to export four craft beer brands to Europe and Asia.[80]

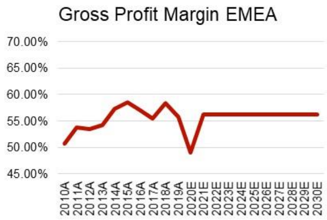


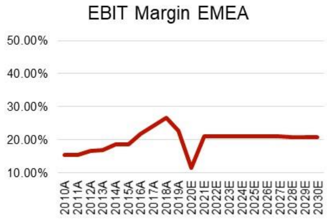


In South Africa, AB InBev was able to increase the volume proportion in the past and captures almost 88.00% of the overall volume. This evolution is mainly driven by the merger of SABMiller in 2016. The competition in South Africa is low and several global breweries failed in gaining market share in the region.[81] In 2019, AB InBev achieved its **highest market share** in history in this market where the **premium brands** continued to outperform. We believe that the main driver for that enhancing performance is the **rise in disposable income** since the GDP is

[73] Statista, 2020
[74] Valuation Model
[75] International Monetary Fund, 2019
[76] Valuation Model
[77] Valuation Model
[78] Market Data Forecast, 2020
[79] Bord Bia, 2017
[80] Business Wire, 2012
[81] Verlag W.Sachon, 2020

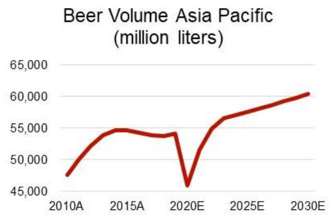
expected to increase steadily on average by 1.94% between 2021 and 2030 after a dip of -2.85% in 2020 due to COVID-19.[82] As a result, we believe that AB InBev will further focus on its premiumization strategy and we expect that the prices will increase from 0.92 ($/liter) up to 1.09 ($/liter) in 2030. Even when AB InBev will grow its volume only at 1.75% by 2030, it will reach a revenue growth of 3.34% due to increased prices.[83]

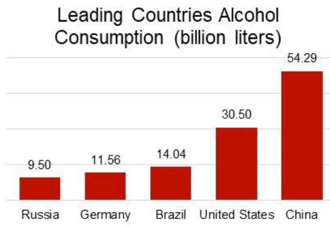


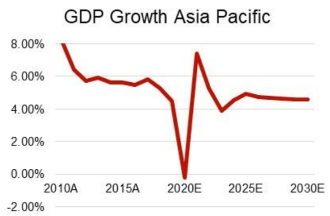


AB InBev`s profit level in EMEA is 55.68% in 2019 compared to 50.68% in 2010.[84] This is driven by **declining COGS due to cost efficiencies** in the entire supply chain due to AB InBev`s global standardization of systems, reports, processes and procedures. We expect that the company will be able to keep the costs flat. Further, **the increasing contribution of craft beer and super premium beers** will support a sustainable gross profit margin of 56.14% since the gross profit margin of craft beer with 20.60% and super-premium with 25.00% is higher than the popular-priced segment with 18.00%.[85,86] AB InBev accounts an EBIT of $1,807 million in 2019 with a margin enhancement from 15.37% in 2010 to 22.84% in 2019.[87] The improvement is based on decreasing COGS. In October 2020, AB InBev signed a **logistic contract with the German start-up sennder** which will use trucks with advanced fuels - starting in France with the intention to expand to whole Europe. Since renewable fuels are getting cheaper (especially when considering governmental subventions) compared to fossil fuels this provides a potential to reduce the costs or at least keep them stable.[88] As a result of the stable costs, the company will reach a sustainable EBIT margin ranging between 21.10% in 2021 and 20.85% in 2030.[89]

Asia Pacific





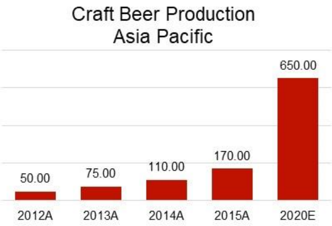


In 2019, the beer market in Asia Pacific included a volume of 54,092 million liters and is expected to grow at a CAGR of 1.01% reaching 60,420 million liters by 2030. The Chinese beer market is still the largest market contributing 78.77% of the overall Asia-Pacific market value.[90] Further, China is the leading country worldwide in respect of alcoholic beverages consumption with 54 billion liters in 2018.[91]

We argue that Asia Pacific and particularly China offers an opportunity for AB InBev to **grow by premiumization**. The GDP in this region is expected to grow by 4.46% yearly on average between 2020 and 2030 which will lead to significantly **higher disposable income**.[92] As a result, we believe AB InBev will grow its prices significantly faster than the projected inflation rate with a CAGR of 7.54%.[93] Since the GDP is also projected to grow, it is reasonable to assume consumers will be able to pay for that increase.

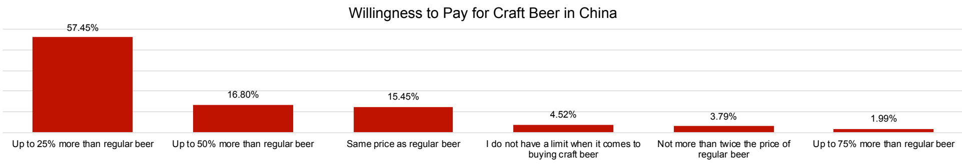
The high-priced segment is further driven by the increasing demand for craft beer in China. While in 2012 there were only 50 million liters produced in China, in 2020 breweries already produced 650 million liters.[94] As the M&A activity in the recent years shows, AB InBev is not likely to miss the opportunity of investing in craft beer in Asia Pacific (as in North America) since it **acquired several local craft beer breweries** in Asia such as Boxing Cat (China`s longest-

[82] International Monetary Fund, 2019
[83] Valuation Model
[84] Valuation Model
[85] Valuation Model
[86] CSP, 2018
[87] Valuation Model
[88] sennder.com, 2020
[89] Valuation Model
[90] Valuation Model
[91] Euromonitor (Banco do Nodrdeste), 2018
[92] International Monetary Fund, 2019
[93] Valuation Model
[94] Sixth Tone, 2017

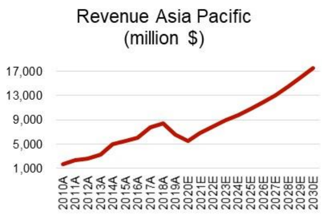


lasting craft brewery) and Kaiba in the last years.[95] In addition, Craft Brew Alliance is strengthening AB InBev`s footprint in the Asian craft beer market.[96]

The craft beer sector is supporting AB InBev`s premiumization strategy since Chinese inhabitants are willing to pay much more for craft beer than for regular beer, 57.45% of respondents indicated that they would pay up to 25.00% more than for regular beer.[97]

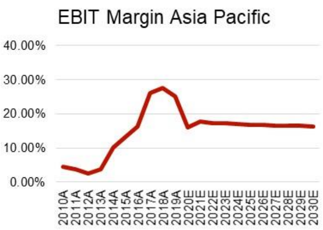


Source: Rakuten Insight, 2019



AB InBev realized $6,544 million of revenues in Asia Pacific which implies 12.51% of the total revenues (CAGR of 15.66% between 2010 and 2019). Even when the company will grow its volume only by a CAGR of 2.39%, the revenues will increase by 9.39% between 2019 and 2030 which is mainly price driven.[98]

In 2019, the company reached a profit level of $3,625 million - resulting in a gross profit margin of 55.39% compared to 42.95% in 2010.[99] The significant margin improvement is based on **strong brand mix, cost discipline and regional initiatives** that helped to balance the declines in the nightlife channel, one of AB InBev's most profitable channels in China.[100] AB InBev achieved a normalized EBIT of $1,639 million in 2019 with an EBIT margin expansion to 25.05%. In order to become the market leader in Asia Pacific we expect that further marketing expenses and investments will be necessary and thus, the SG&A costs will increase from 33.86% of revenues in 2019 to 36.89% until 2030. As a result, AB InBev will achieve a lower EBIT margin for the forecasted period ranging between 17.65% in 2021 and 16.35% in 2030.[101]



The volume proportion captured by AB InBev is 17.19% in 2019 which implies a CAGR of 5.64% between 2010 and 2019.[102] We are confident that AB InBev will be able to increase its volume captured. This assumption is based on **the high potential of the premium and craft beer segment**. In addition, the initial public offering of a minority stake of AB InBev's Asia Pacific business (Budweiser APAC) in 2019 and its listing on the Hong Kong Stock Exchange for $6 billion also provides growth potential. Based on that, the company wants to create **a regional champion in the local consumer goods space** and **enhance connectivity with their stakeholders** in Asia Pacific. Besides this, the IPO provides an attractive currency for potential M&A activities in this region.[103]

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[95] Fortune, 2017
[96] Business Wire, 2012
[97] Rakuten Insight, 2019
[98] Valuation Model
[99] Valuation Model
[100] Annual Report AB InBev, 2019
[101] Valuation Model
[102] Valuation Model
[103] Annual Report AB InBev, 2019